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Auckland Notable Properties Trust
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St James Redevelopment: Economic Advice

Dear Steve,

Auckland Notable Properties Trust is a social enterprise, with the goal of saving, restoring and improving significant heritage properties for its beneficiaries, the people of Auckland.

The Trust has applied for \$300 million of development funding to allow it to undertake the 'St James redevelopment'. This involves restoring the St James Theatre and developing more than 300 new homes and 3,000 square metres of leasable commercial space.

The estimated market value on completion is \$350 million plus GST. This makes the St James redevelopment a major project by any standard. It may be the largest housing project ever planned by a social enterprise or not-for-profit developer, aside from the public sector.

As a comparison, the Ted Manson Foundation aims to deliver \$160 million of social housing, but over four years and multiple projects.¹ Auckland City Mission's HomeGround is worth \$110 million.²

Key points are:

- The St James redevelopment will restore one of Auckland's most treasured civic facilities, and contribute to the preservation of New Zealand's built heritage. It will unlock a \$70m restoration project including \$15m of Council funding, with significant public benefits
- It will create 300+ new homes, within walking distance of all the city centre has to offer (including more than 120,000 jobs, two universities and high-quality public and active transport)

¹ https://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11997975

² <https://www.aucklandcitymission.org.nz/homeground/>

- At current borrowing rates, the interest cost for Government would be just \$1 million for a \$300 million loan
- This loan enables a \$350 million (plus GST) development with both public and private benefits
- The project will generate \$52.5 million of GST for central government
- It will generate \$11 million in one-off development contributions and Infrastructure Growth Charges, and almost \$1 million a year in ongoing rates revenue for Auckland Council.
- It will support employment in the construction industry (averaging 460 direct jobs over a three-year period), and help skills retention and development for future needs
- It will contribute towards progress on Auckland's housing shortage and future demand
- It will contribute to a lower-emissions future

Background

The St James Theatre is listed with Heritage New Zealand as a Historic Place Category 1.³ The theatre was built in 1928 and “has been a major focus of social life in Auckland for the best part of a century”. The theatre is the only remaining one of its kind in New Zealand, and has unique heritage value from its largely intact interiors.

The St James Theatre was initially built for vaudeville performances but rapidly converted to cinema use, and continued to be used for live shows until damaged by fire in 2007. It has been largely off-limits to the public ever since.

The St James sits in the heart of Auckland's Civic Quarter – surrounded by the Civic Theatre and Auckland Town Hall (both of them also Historic Places Category 1), Aotea Centre, Auckland Central Library, Auckland Art Gallery, and private facilities such as Smith & Caugheys and Sky World entertainment centre.

The Redevelopment

In late 2014, it was announced that the St James precinct would be redeveloped, with the theatre restored and a new 307-apartment tower alongside (also including commercial space on the podium levels). The theatre restoration and the tower have been inextricably linked for at least a decade: the theatre will rely on amenities and toilets in the tower podium.

The apartments were marketed overseas over summer 2014-2015, and then domestically from early 2015. Most of them were quickly sold, enough to enable bank funding for the development (‘pre-sale thresholds’). Other than the St James

³ <https://www.heritage.org.nz/the-list/details/4404>

itself, other buildings on the site were demolished and the site was cleared ready for construction.

However, the apartment development was put ‘on hold’ in late 2016. With construction costs rising rapidly during this period, funding conditions became very difficult, an issue faced by many developments.⁴

Auckland Council agreed to contribute \$15 million towards the theatre restoration in late 2015. Some restoration work began, but it ended in 2017 with the apartment development still ‘on hold’.

There has been significant public interest in the theatre restoration, including coverage across all media, a documentary, public tours and a Facebook page with 10,000 likes.

The Construction Industry

Construction is one of the largest industries and employers in Auckland (and New Zealand). A recent report from Auckland Council called construction “a vital component of Auckland’s economy”, accounting for 7% of GDP and 86,000 workers.⁵

Historically, construction has been very cyclical, with a ‘boom-bust’ cycle that has made it hard to retain skills and workers. A 2016 report by PwC found that construction “exhibits greater volatility than other sectors”, with the highs and lows more than twice as large as the retail trade or accommodation and food services sectors.⁶

Across NZ, construction employment dropped by 30,000 from 2007 to 2011, a 15% decline. Starting around 2014, the industry started to grow rapidly, with skills shortages starting to arise at all levels. Many workers were brought in from overseas. Costs also rose, putting many in the sector under pressure.

Commercial construction, or ‘vertical construction’, was especially hard hit due to project complexity, long lead times and cashflow issues. High-profile builder collapses included Arrow International, Ebert Construction, and the previous iteration of Hawkins Construction, NZ’s second-largest builder. Fletcher Construction, NZ’s largest builder, also sustained heavy losses and announced its intention to exit ‘vertical construction’.

⁴ https://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11770947

⁵ <https://knowledgeauckland.org.nz/media/1714/tr2020-002-aucklands-construction-sector-trends-to-2019.pdf>

⁶ <https://www.pwc.co.nz/pdfs/CSG-PwC-Value-of-Construction-Sector-NZ.pdf>

Various Government initiatives have aimed to address the boom-bust nature of the industry, including the Construction Sector Accord which then resulted in the Construction Action Plan.

By early 2020, the construction sector was at a record size in terms of its activity (with \$25 billion of work put in place during 2019, excluding GST and civil construction) and its employment (roughly 240,000 people). Building consents were also at record levels, and the industry expected to keep growing at a more manageable rate.

The global effects of Covid-19 have now disrupted this outlook, and the construction industry is now bracing for a deep recession. In the absence of Government support, tens of thousands of jobs are likely to be lost. This has led to the 'shovel-ready projects' initiative.

Job Creation from the St James Redevelopment

The estimated construction cost for the St James redevelopment is \$230 million. RCG analysis suggests that a project of this size could support 1,390 construction jobs for one year, or 463 jobs for three years – the likely project timeframe.⁷

These figures are averages and will scale up and down at different times, but show that the project will support a large number of jobs. The figures also exclude the jobs supported in related industries – e.g. design, engineering, materials manufacturing and wholesaling etc.

Auckland's Housing Shortage

In late 2017, MBIE estimated “the accumulated [housing] shortfall in Auckland at around 45,000 dwellings”.⁸ Auckland Council and the government have both described the housing shortage as a “crisis”.

Actual delivery of housing kept rising in 2018 and 2019, so it is likely that the shortage has stabilised since MBIE made their estimates, but with very little progress on the “accumulated shortfall”.

Auckland's housing shortage has many far-reaching consequences – including [overcrowding](#), substandard housing, insecure tenure and high housing costs. This project is only a small contribution towards making things better, but it will deliver new, high-quality housing close to employment and opportunities.

⁷ Our analysis is based on data from Stats NZ (the Building Activity Survey, Household Labour Force Survey and business demography)

⁸ <https://www.beehive.govt.nz/sites/default/files/2017-12/Housing%20and%20Urban%20Development.pdf>

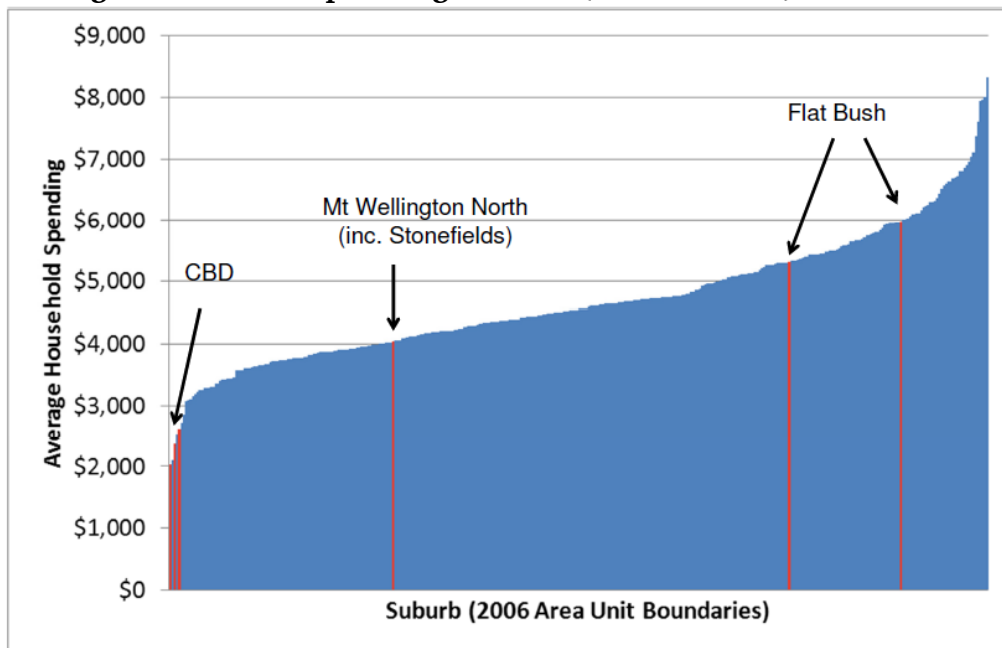
Climate Change and Sustainability

A recent study by Massey University researchers found that New Zealand housing needs to reduce its lifetime carbon footprint by 80% to meet our climate goals, based on life cycle analysis for an average new house of 200 square metres.⁹

The researchers noted that “there are things we can do quickly to get the carbon down. The big one is the house size. Then, making houses more energy efficient... [and] higher density housing”. Apartments tick all these boxes, and the average unit in the St James redevelopment would be less than 100 square metres.

Lifecycle analyses on housing tend to ignore transport emissions, but these are a major source of emissions, and the location of housing really matters. Previous analysis by RCG has found that city centre-resident households spend half as much on fuel as the average Auckland household. Their transport emissions will be similarly low.

Average Household Spending on Fuel (Source: RCG)



The St James redevelopment is one of the most centrally-located sites possible. It has excellent access to employment areas (with more than 120,000 jobs in Auckland Central alone), education, public and civic amenities, as well as shops and services. As such, St James residents will have much less need for driving.

⁹ <https://www.newsroom.co.nz/2020/01/15/986487/new-houses-emitting-five-times-too-much-carbon-and-thats-good-news-study>

The property also has outstanding transport connections, within walking distance of the Britomart transport hub (trains, ferries, buses), bus routes, cycleways and – within the next 4-5 years – the new Aotea train station on the City Rail Link.

The Cost to Government

Auckland Notable Properties Trust is seeking a loan for the St James redevelopment, rather than a grant. As such, the true cost to Government is much less than the \$300 million face value of the loan – it is the interest foregone, at a time when interest rates are at historic lows.

Interest rates have dropped significantly over the last year and especially over the last 2-3 months. The Official Cash Rate was lowered from 1.75% in early May 2019 to 1.00% in August 2019 over two cuts. It remained at 1.00% until 16th March 2020 when it was cut to 0.25% in response to Covid-19 and a worsening economic outlook, both nationally and globally.

We have assumed the \$300 million is drawn down at a linear rate over three years (rather than the usual ‘S-curve’), or just over \$8 million per month. It is then fully repaid at the end of the period.

5-year Government bond yields are currently at 0.2%, suggesting that the Government could pay just \$1 million in interest over three years for a \$300 million loan!

Conclusion

The St James redevelopment is a very foresighted project, including the preservation of an Auckland icon and historic place, as well as a private development that delivers much-needed new housing in an excellent location. It will have significant economic benefits for Auckland and New Zealand.

Kind regards,



John Polkinghorne
Associate Director
RCG Limited